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DEPARTMENT OF PUBLIC WELFARE

WELFARE REINVESTMENT PROJECT:
A FEASIBILITY STUDY

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Section 82 of Chapter 133 of the Acts of 1992 directs the Department to devise and evaluate a plan for investing funds in a welfare reinvestment project to create permanent employment opportunities for recipients of public assistance. Pursuant to the requirements of Section 82, the Department has completed the following report.

OVERVIEW:

Interest in the development of entrepreneurial business opportunities for low-income groups has increased markedly at the federal, state, and local levels. In recognition of the various initiatives that have begun over the last several years in this country and longer term program models operating elsewhere, the Department has approached this requirement in two ways:

1. We have contracted with Bay State Skills Corporation (BSSC) to conduct a welfare reinvestment analysis that examines the option of adapting the Canadian Human Resources Development Association (HRDA) model in Massachusetts; and

2. We have begun research into various federal, state and private models of entrepreneurial business programs and have met or talked with a number of program managers currently operating or developing other types of business opportunity programs, some of which are based in Massachusetts.

1. BSSC STUDY:

Background

This feasibility study has been delayed, in part, due to the unexpected time required by BSSC to complete an analysis of the HRDA model. The study was originally scheduled to be completed in December. However, in response to extension requests by BSSC, the date for completion was moved to February. The first two drafts of the analysis submitted to the Department were clearly incomplete and did not contain sufficient data to substantiate the findings and recommendations of BSSC. In particular, the first drafts did not:

- examine the option of adapting the HRDA model in Massachusetts;
- include a cost-benefit analysis clearly identifying projected costs of a Massachusetts project over time: nor
- contain an analysis of the investment required for start-up in Massachusetts.

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The Department received the complete BSSC report on May 18, although the certification by an independent auditor of the program evaluation methodology and findings has not yet been incorporated as required in the BSSC contract.

Study Findings:

BSSC studied the program that exists in Halifax, Nova Scotia, where with $3.87 million in government funding over the past twelve years, the quasi-public Human Resource Development Association (HRDA) has managed the start-up and operation of small businesses that train and employ welfare clients. HRDA currently operates six businesses employing about 160 people, 97 of whom had been on welfare. Using HRDA as a program model, BSSC recommends the department invest $8.6 million over four years in a multi-site demonstration project which BSSC projects would create 200 permanent jobs and would employ 500 welfare recipients over the four-year period. BSSC projects that without a government subsidy in subsequent years, operating revenues would cover operating expenses and the businesses would be self-sufficient though they would not create additional jobs. BSSC further stipulates that an additional 25% of site-specific costs would need to be borne by a local partner.

Concerns / Issues:

The Department has reviewed the analysis and, while we remain enthusiastic about developing business opportunities for welfare recipients through creating entrepreneurial enterprises, we have some concerns about investing welfare dollars in this particular program model. They are:

- The cost of this program: The cost is considerably higher than current MassJOBS programs. Based on the analysis' figures, the cost per placement is $17,200, for each of 500 placements. For the same amount of dollars ($8.6 million), the Department could:

  - assist over 3,700 clients get their GED certificates; or,

  - place over 1,900 clients to in employment through a skills training program or the Assisted Placement program; or,

  - place over 6,600 clients in employment through direct job search activities.

  Thus, the shifting of resources from current MassJOBS programs toward this proposal would substantially reduce the number of AFDC job placements over the next four years.

- High risk investment: The Department would pay 75 percent of the start up costs for the businesses created, a high risk given the over 50 percent failure rate of start-up, small businesses nationally according to the Small Business Administration. Given the small number of permanent jobs the project will create (200), the risk is inordinately high. Furthermore, given the lack of expertise in this area which the Department possesses, capitalization of small business might be more appropriately the role of EOCD or EOEA.

- Revenue needed to sustain businesses: In order to meet payroll costs by year four, the businesses created under this plan would need to generate $2.15 million in operating revenues or outside funding in addition to the Department's $2.15 contribution. In year five, without department funding, these same businesses would need to generate $4.3 million in revenues to meet the cost of salaries, benefits and payroll taxes for 200 employees. This does not include other operating and/or capital costs.

- The population served: The population served by the HRDA model is primarily single men, as opposed to Massachusetts, where the AFDC population is comprised predominantly of single, female heads of household with dependent children.

- Rate of return to welfare: A telephone survey of former HRDA employees (two years or less) concerning their post-HRDA labor market experiences showed that only 33.9 percent were currently employed.

2. OTHER WELFARE REINVESTMENT OPPORTUNITIES:

Background

The Department is excited by the growing interest, at the local, state and federal levels, in the creation of new employment and business opportunities for AFDC recipients. In addition to our work with BSSC on the feasibility of adapting the HRDA model to Massachusetts, we have:

- done preliminary research into current federal, state, and private financing of entrepreneurial models operating across the nation; and,

- been talking and meeting with several community-based and national organizations who are currently operating or developing other types of business opportunities programs.

- hired a Business Opportunity Program Manager to further explore this area and gather more information on the cost effectiveness of the almost 200 business opportunity programs currently operating in this country.

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Federal Funding

A variety of federal agencies have begun funding entrepreneurial business programs to create new employment opportunities for low income populations over the past few years. The models funded include: expansion of existing small businesses; creation of new small business through cooperative business ventures and microenterprise training and/or loan programs. The following are some federal agencies currently funding entrepreneurial initiatives:

- Department of Health and Human Services (HHS), Office of Community Services. Through its Job Opportunities for Low-Income Individuals (JOLI) Program, HHS has, over the past three years, funded thirty organizations with awards of approximately $13 million. **The average cost per job created through JOLI's FY'90 and FY'91 grants was projected at approximately $6,250 per job.** JOLI's Notice of Fund Availability for FY'93 was issued in May with proposals due in June;

- HHS, Federal Office of Refugee Resettlement, currently funds microenterprise training and loan programs. Jewish Vocational Service, Inc. is currently operating a program funded through this office. **The average cost per participant is projected to be approximately $2,000.** A description of this program is included in Attachment A;

- U. S. Small Business Administration is currently funding a Microloan Demonstration Program which became law in 1991; and

- Department of Housing & Urban Development is making funds available to assist public housing residents to start certain types of cooperative business ventures.

State Funding

We have not yet assembled a complete list of states funding business opportunity programs. However, the number appears to be growing:

- Connecticut funds Entrepreneurial Training for its JOBS participants;

- Iowa is adding Enterprise Training as a component in its JOBS program, effective July 1, 1993;

- Massachusetts Department of Employment and Training is testing the viability of self-employment as a re-employment alternative for people collecting unemployment insurance. While developing their own businesses, participants receive a self-employment stipend every two weeks up to a maximum of 24 weeks. The individual is relieved of their responsibility to look for work, as starting a business is considered a full-time endeavor. The overall savings in state & federal benefits has averaged $1,425 per participant; and

- Montana has begun to fund several enterprise training programs.

Private Funding

Several organizations within the Commonwealth have been able to obtain funding for entrepreneurial business development from private funding sources. (See Attachment A; Business Opportunity Program Models Currently Operating in Massachusetts)

Cost/Benefit Analysis

The results of various programs mentioned in this study indicate a broad disparity in the cost effectiveness of different models. In addition to the programs described above and in Attachment A, the Department is currently reviewing :

- a cost/benefit analysis completed on the Iowa program;
- an MDRC evaluation of the effectiveness of Self-Employment Demonstration Programs serving AFDC recipients; and
- talking to other organizations in various stages of program evaluations.

It is our hope that this analysis will be available in the near future.

3. RECOMMENDATIONS:

The Department is committed to determining how best to create incentives for private industry and non-profit organizations to create or expand employment opportunities for AFDC recipients. We do not however, believe it is appropriate to divert limited MassJOBS resources into *business capital* to serve a small number of individuals.

Given both the variety of options in this field, and the fact that data is just now being analyzed on the cost-effectiveness of various models, we are hopeful that the Department can continue to meet with various program operators and explore the cost effectiveness of the different models more fully before committing resources to a particular type of venture.

Business Opportunity Program Models Currently Operating in Massachusetts

I. MICROENTERPRISE TRAINING & LOAN PROGRAMS

Provider/ Financing:
Jewish Vocational Service, Inc., a non-profit education and training organization, has recently begun a Microenterprise Training & Loan Project, using a 3 year. demonstration grant from the Federal Office of Refugee Resettlement.

Description of Model;
The program model is comprised of 4 phases:

1. 3 months of education and training that will result in the production of a business plan
2. a business planning phase where participants learn about debt and equity financing, and obtain capital
3. mentorship & technical support for new small business owners during the start-up with the business venture operating; and
4 transition to an independent venture.

Status:
The first year goal included training for 35 potential microentrepreneurs, with the provision of loans & technical assistance to a minimum of 15 graduates who start enterprises. Thirty-four participants actually enrolled in the training program. 20-25 participants are expected to complete their business plans in the next few weeks. **The cost per participant is approximately $2,000. It is anticipated that 50% of the initial 34 participants will either develop a self-sustaining business or obtain other employment as a result of participation in this program.**

II. COOPERATIVE BUSINESS VENTURES

We are currently speaking with groups in various stages of development. The first project is in the planning stages, with the business plan due to be completed in June. The second example is of smaller ventures currently underway.

ICA

PROJECT 1

Provider/ Financing:
The ICA Group is a Boston based, non-profit consulting group specializing in community-based enterprise development. ICA works with community development corporations, foundations and state and local governments to devise business development programs. ICA has been funded through the Charles Stewart Mott and Ford Foundations to assist in the multiple replication of the Cooperative Home Care Associates (CHCA) agency in New York. Funding for the Boston replication will be a combination of national foundation grants, local support, and through loan financing.

Description of Model

CHCA is an eight year old, worker-owned home health care agency headquartered in the South Bronx, New York. It currently employs over 275 African-American and Latina women who each month provide paraprofessional services to hundreds of elderly and disabled home care patients in low-income neighborhoods of the Bronx and Northern Manhattan. CHCA currently has over $ 4 million in annual sales. CHCA's strategy in building an employee-centered agency included:

- careful selection of employees;
- learner centered education and training;
- wages and benefits; and
- a corporate culture that demands the highest work standards while providing a supportive atmosphere within a cooperative worker-owned structure.

Status

The first replication company began operation in February 1993, in Philadelphia. Boston is planned to begin in January, 1994. ICA would be interested in financing from the Department to supplement CHCA training. Approximately 200 AFDC recipients would be trained with a projected 100 employed by CHCA over a three year period. If the department were to become involved in this project, Department costs would be limited to training at approximately $85,000 over three years. **While the business plan has yet to be completed it is projected that approximately 100 AFDC recipients would accept employment with CHCA. The Department estimates the cost per participant trained *and* employed to be about $850.**

PROJECT 2

Providers / Financing:

Women's Institute for Housing and Economic Development (WIHED) and Women for Economic Justice (WEJ) both operate Cooperative Business Ventures. Both are non-profit women's organizations focusing on the economic development of women and are committed to multiculturalism as reflected in their boards, staff, projects and constituency. The financing is through private foundations.

Description of Model

The emphasis is on cooperative income-generating projects as a strategy for addressing issues of economic stability for community based groups of poor women. They believe the cooperative structure offers:

- lateral management and ownership shared jointly by each participant,
- each worker a voice in decision making and control over the operations of the business.
- the opportunity for participants to take on leadership roles among their peers and to maintain flexibility and control over their working conditions.

Description of Model (continued)
The program model is comprised of 4 phases:

1. 3 month education and pre-development phase
2. 6 month business planning phase where the participants learn about debt and equity financing, obtain capital and receive support and technical assistance
3. up to 12 months start-up with the business venture operating; and
4. transition to an independent venture.

Status
WEJ is currently working with 6 cooperative groups, 47 women, in various stages of business development. WIHED with one group. It is anticipated that women will remain in the program for approximately two years at a cost of $2,000 per participant per year. It is further anticipated that 1/3 of participants will transition to full-time employment within the business venture, 1/3 part-time, and 1/3 other outcomes.